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## Scott Paper Limited 1978 Annual Report

Head office/Vancouver, British Columbia  
Plants/New Westminster and Surrey,  
British Columbia; Crabtree and  
Lennoxville, Quebec  
Sales offices/Vancouver, Winnipeg, Toronto,  
Montreal and Dartmouth, Nova Scotia

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## Valuation Day Value

For Canadian capital gains tax purposes, valuation day values of Scott Paper Limited securities are as follows:

Common Shares .....	\$ 18.50
1971 Series A Debentures .....	\$102.00

## Chairman's Message to Employees and Shareholders

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The year 1978 was a very good one for Scott Paper Limited. We are pleased to be able to report significant gains in sales and earnings which are the result of a well-balanced performance throughout the company. Overall sales results from all divisions were encouraging. The performances of our manufacturing and service organizations were also at high levels and all segments of the company coordinated well together as they must do in order to achieve balanced and sustained growth.

Net sales for the year increased by 12.2%, rising from \$103,884,000 to \$116,539,000 and net income after taxes increased from \$3,659,000 to \$4,239,000, for an increase of 15.9% over 1977. Net income per share was \$1.75 in 1978 versus \$1.52 in 1977. In addition to the subdivision of shares which took place December 4, 1978, the number of shares outstanding increased by 24,750 shares as a result of the conversion of stock options. There were selective increases in selling prices of our products in order to offset rising costs of pulp, labour and materials that could not be recovered by productivity gains.

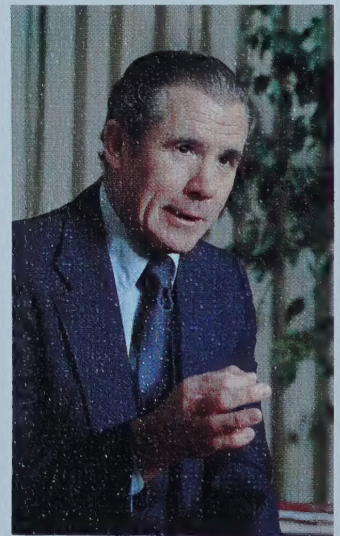
During the control period of the Anti-Inflation Board, dividend payments were restricted and the percentage of our earnings paid as dividends declined. However, after the controls were removed last fall, the quarterly rate was increased for both the October 1978 and January 1979 payments and the indicated annual rate for the year 1979, 60¢ per share, is approximately 34% of our 1978 earnings per share. This is a greater proportion than we were allowed to maintain during the control period. It is the objective of the Company to pay out as dividends between 30% and 40% of net income, depending of course upon earnings performance and the capital needs of the company.

The year was eventful. During August, we acquired the assets of Lennox Paper Limited of Lennoxville, Quebec. Including a modern 100" tissue machine and converting equipment and situated on approximately 27 acres of prime industrial land near Sherbrooke, this new plant will coordinate very well with our operations at

Crabtree, Quebec and provide much needed expansion potential for a low initial investment. In November, an extraordinary meeting of shareholders was called to subdivide the common shares of the company 3 for 1, to change the name of the company to include a French language version, Les Papiers Scott Limitée, and to revise the Articles of Association in order to bring them into conformance with recent changes to the Companies Act of British Columbia. All three proposals were approved and the shareholders not in attendance were notified accordingly. The subdivision of the common shares took effect on December 4 and provides an opportunity for increased trading so that more Canadians may have the opportunity of investing in the company. As a result of the name change, the company may identify itself and conduct its affairs solely in the French language, which is a great advantage in Quebec.

A new agreement is being completed with Scott Paper Company of Philadelphia, Pennsylvania, calling for both management and financial participation in research and development programs to be carried out by Scott in their U.S. facilities and elsewhere. The agreement is part of a long-term arrangement which joins together all of Scott's international affiliates in a way that will significantly increase financial, marketing and technical resources available for development of new products and processes. It will take effect in 1979.

We were fortunate in June to gain the services of Mr. Marcellin Tremblay of Montreal as a director of the company. Mr. Tremblay is President of the Canadian Provident Group, Vice Chairman of the Northern Life Assurance Company of Canada, and a director

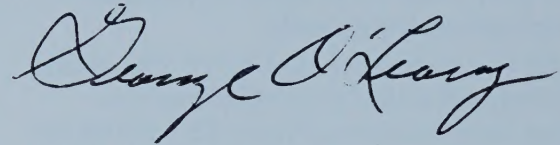


of several other important Canadian financial organizations.

1978 was a most challenging year and the positive results therefore are most satisfying to our people. As we move into 1979, Canada continues to face the problems of high unemployment and rising costs in many areas. It is vital to the future of the country that government and fiscal policies be formulated to provide improved confidence in the political and financial future. It is our firm hope that all sectors will recognize the great danger to the future if restraint is not practiced in government spending and in the unrealistic expectations from our economy so that we do not return to the double digit inflation of the mid-1970's.

Most economists predict a less than satisfactory growth in 1979. However, your company is planning to continue its sales and earnings progress. The continued support and cooperation of our most valued co-workers, our customers and suppliers will play a major role in our efforts toward further growth in 1979.

FOR THE BOARD OF  
DIRECTORS,



GEORGE L. O'LEARY  
*Chairman*



## Review of the Year

The increase in sales for the year was encouraging, particularly during the latter half of 1978, when the rate of growth over 1977 accelerated. The marketplace for our products changes continuously and the rate of change is also increasing as the consumer expresses new preferences and demands for improvements in product quality, value and esthetic appeal. The photograph on page two of the report depicts several of the most important product changes which were introduced.

In recent years, the sales environment for sanitary packaged products has become very price competitive and this factor became even more pronounced during 1978, following the introduction of the generic product concept in parts of Canada. These products are identified only by category and package quantity and are sold primarily on a price appeal. To maintain our competitive position, we have intensified even

further our emphasis on product quality and value as the only way to build a leading market position. The continuing strong performance of Cottonelle bathroom tissue has been very encouraging in this regard.

The important product and packaging innovations which were completed during 1978 included Purex and Cashmere bathroom tissue, Scotties facial tissue and ScotTowels. Purex, Cashmere and ScotTowels are benefiting from significant improvements to product quality and value and Scotties are now available in a fresh new range of earthtone colours in beautifully coordinated packaging. Considering the wide variety of package and case assortments which must be maintained, the changeovers were accomplished efficiently as a result of effective coordination between our marketing and sales organizations on the one hand, and the manufacturing and logistics divisions on the

## Financial Highlights

FOR THE YEAR	1978 (thousands of dollars except per share)	1977	Percent Change
Net Sales .....	\$ 116,539	\$ 103,884	12.2
Depreciation .....	4,661	3,831	21.7
Interest expense .....	2,675	2,471	8.3
Income before taxes .....	6,555	5,674	15.5
per share .....	2.70	2.36*	
Income taxes .....	2,316	2,015	14.9
Income after taxes .....	4,239	3,659	15.9
per share .....	1.75	1.52*	
Dividends .....	1,179	1,040	13.4
per share .....	.486	.433*	
Income reinvested in the business .....	3,060	2,619	16.8
Cash flow from operations .....	11,026	9,373	20.8
per share .....	4.54	3.90*	
Capital expenditures .....	7,773	9,813	(20.8)
Salaries, wages and benefits .....	30,867	27,898	10.6
AT YEAR END			
Ratio current assets to current liabilities .....	1.7	1.6	
Long term debt .....	\$ 19,286	\$ 20,354	
Shareholders' interest per share .....	\$ 14.63	\$ 13.42*	
Number of shares outstanding at year end .....	2,426,250	2,401,500*	
Number of shareholders .....	1,130	991	
Number of employees .....	1,530	1,554	
Investment in assets per employee .....	\$ 43	\$ 40	

\* Restated to reflect 3 for 1 share split, December 4, 1978.

other. We believe the quality and values offered by our product line at the present time have never been stronger and we look forward to continued sales progress as we move into 1979.

Our manufacturing division, including the new Lennoxville plant, performed well during the year. While the official takeover of the Lennoxville operation occurred in August, the start-up of production was not scheduled until October. This followed extensive training, the conclusion of a two-year labour agreement with the Confédération des Syndicats Nationaux and the organization of accounting, maintenance and purchasing systems. The Lennoxville plant adds about 8% to our annual capacity at present production rates but, more importantly, provides an additional well-located plant site for future expansion and development in the key Eastern Canadian market.

Productivity at Crabtree and New Westminster increased as both plants turned in overall performances which helped offset the continued impact of inflation on all purchased materials and supplies. The Crabtree operation was hampered to some extent by a fire in April which destroyed most of the electrical system of #4 paper machine. The system was fully restored in five weeks and we are grateful for the spirited cooperation of our own crews, as a considerable amount of overtime was required to rebuild the system and maintain the rest of the mill in good operating order at the same time.

During the year, in addition to the labour agreement at Lennoxville, two-year agreements were concluded with the Confédération des Syndicats Nationaux at Crabtree and the Office and Technical Employees' Union at New Westminster and Vancouver. The labour agreement in the Western Manufacturing Division with the Canadian Paperworkers' Union expires June 30, 1979.

After several years of stability, pulp prices increased in October, 1978 and again January 2, 1979. The two increases together amount to approximately 20% over average prices during the year 1978. The long and extensive shutdown of pulp mills on the West Coast of the United States and curtailment of Scandinavian production has reduced the worldwide pulp inventory much more quickly than had been anticipated, raising possibilities of additional

## Lennoxville

Lennoxville is a picturesque little university town nestled in Quebec's Eastern Townships. The town is some 145 km. from Montreal and 7 km. from the area hub of activity, Sherbrooke.

Located at the junction of the St. Francis and Massawippi rivers, the town began as a trading post under the French regime, which named the area Les Petites Fourches (little folks) in contrast to Sherbrooke, Les Grandes Fourches. Like Sherbrooke, it was settled in the 1790's by Loyalists from Vermont. The settlement was named in honour of Charles Lennox, Duke of Richmond, a Governor-in-Chief.

Lennoxville was incorporated in 1920 and now has a population of approximately 4,000. It is mainly an English-speaking community and is the home of Bishop's University and Bishop's College School for boys. Both the university and the school are under the auspices of the Anglican church. The town also has a high school and a Roman Catholic school.

Local industries include glove factories, a maple products plant, lumber mills, an asbestos-products factory, a plant manufacturing screen plates for paper mills, a brass foundry and a machine shop. The town is also the centre of a rich mixed-farming area and has on its outskirts a 700-acre Dominion experimental farm, established in 1914.

In the winter the Townships are alive with skiers of all ages, as literally hundreds of slopes are available within a short drive of the Sherbrooke-Lennoxville area. During the summer months the surrounding lakes are home once again to vacationers from the Montreal area.

The Lennoxville Division mill is situated at the edge of town on the Massawippi River, close to main rail line and roads. Production began on Friday, October 13th, 1978, with the first two-ply parent roll shipment leaving the mill two days later. The mill currently employs 700 people and it is expected that this number will increase.



increases during 1979. However, the start-up of our secondary fibre operation in Crabtree and improvements to productivity and quality levels of the mechanical pulping process in New Westminster have increased the percent of own-make fibre in our furnishes, which help to offset the increase in delivered pulp costs.

The company closed the year in a strong financial position after posting solid gains in sales and earnings. Sales increased 12.2% to \$116,539,000 and included only minor gains from selective price increases. The 15.9% increase in net income after taxes — to \$4,239,000 from \$3,659,000 — is after absorbing all training and start-up expenses at Lennoxville and depreciation expenses of \$4,661,000 which were 21.7% greater than 1977. The increase in depreciation is due to accelerated write-off of machinery and equipment plus the additional expense arising from the approximately \$17,600,000 of capital additions in 1977 and 1978.

Cash flow from operations increased 20.8%, to a total of \$11,026,000 for the year and capital expenditures were \$7,773,000, including the purchase of the Lennoxville plant. Capital expenditures were lower than 1977 due in part to the fire at Crabtree which caused a delay in some projects there. Inventories and short term bank indebtedness were reduced and working capital increased. Capital expenditures for 1979 are expected to be \$6,700,000.

Salaries, wages and benefits paid amounted to \$30,867,000, 10.6% greater than 1977.

Looking over the five years since 1973, the company has made good progress. Net sales and net income after taxes have more than doubled, increasing by 107% and 112% respectively. Cash flow from operations is up 96% and, at present levels, these internally generated funds will finance a high proportion of on-going modernization needs. Shareholders' equity at year end was \$14.62 per share versus \$9.52 per share at the end of 1973, and dividend payments to shareholders, based on the quarterly rate now in effect, are 83% higher than the comparable period of 1973. 1978 was the 48th consecutive year of dividend payments by the company.

The price range of stock traded on the Toronto Stock Exchange during the year was \$8.00 to \$11.50 per share versus \$7.25 to \$9.75 in 1977.

## Consolidated Statements of Income and Retained Income

Year ended December 31

	1978 (in thousands)	1977
INCOME:		
Sales, less allowances and after deducting Federal sales tax of \$9,781,000 (1977 — \$9,319,000) .....	<u>\$116,539</u>	<u>\$103,884</u>
EXPENSES (Note 6):		
Cost of products sold .....	82,153	72,234
Selling and distribution expenses .....	20,592	19,728
Administrative and general expenses .....	4,564	3,777
Debenture interest and amortization of issue costs .....	2,138	2,220
Bank interest .....	537	251
	<u>109,984</u>	<u>98,210</u>
Income before income taxes .....	<u>6,555</u>	<u>5,674</u>
INCOME TAXES:		
Current .....	331	198
Deferred .....	1,985	1,817
	<u>2,316</u>	<u>2,015</u>
Income for the year .....	<u>\$ 4,239</u>	<u>\$ 3,659</u>
Income per share .....	<u>\$1.75</u>	<u>\$1.52</u>
RETAINED INCOME:		
Retained income at beginning of year .....	\$ 25,614	\$ 22,995
Income for the year .....	4,239	3,659
	<u>29,853</u>	<u>26,654</u>
Dividends (Note 8) .....	1,179	1,040
Retained income at end of year .....	<u>\$ 28,674</u>	<u>\$ 25,614</u>

## Consolidated Statement of Financial Position

December 31

	1978 (in thousands)	1977
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 33	\$ 36
Trade and other accounts receivable .....	10,958	8,926
Income taxes recoverable .....	—	209
Inventories (Note 2) .....	22,010	24,377
Prepaid expenses .....	306	179
	<u>33,307</u>	<u>33,727</u>
<b>CURRENT LIABILITIES:</b>		
Bank indebtedness .....	7,479	12,192
Accounts payable and accrued liabilities .....	11,204	8,644
Income taxes payable .....	452	—
Current portion of long-term debt (Note 4) .....	770	770
	<u>19,905</u>	<u>21,606</u>
Working capital .....	<u>13,402</u>	<u>12,121</u>
<b>Add: NON-CURRENT ASSETS —</b>		
Fixed assets (Note 3) .....	52,027	49,106
Unamortized debenture discount and issue expenses .....	383	431
Miscellaneous assets .....	321	300
	<u>52,731</u>	<u>49,837</u>
<b>Deduct: NON-CURRENT LIABILITIES —</b>		
Sinking fund debentures (Note 4) .....	19,286	20,354
Deferred income taxes (Note 1(d)) .....	11,363	9,378
	<u>30,649</u>	<u>29,732</u>
Net assets .....	<u>\$35,484</u>	<u>\$32,226</u>
<b>SHAREHOLDERS' INTEREST:</b>		
Share capital (Note 5) .....	\$ 6,810	\$ 6,612
Retained income (Note 4) .....	28,674	25,614
	<u>\$35,484</u>	<u>\$32,226</u>
<b>APPROVED BY THE BOARD OF DIRECTORS:</b>		
G. L. O'Leary Director		
A. W. Fisher Director		

# Notes to Consolidated Financial Statements

## December 31, 1978

### 1. Summary of significant accounting policies:

#### (a) Principles of consolidation —

The consolidated financial statements include the accounts of Scott Paper Limited and its wholly-owned subsidiaries, Westminster Paper Company Limited, operating, and Omega Products Limited, non-operating.

All intercompany transactions are eliminated.

#### (b) Inventories —

Inventories of finished products and work-in-process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

#### (c) Depreciation and amortization —

##### Fixed assets —

Depreciation is provided on buildings, machinery and equipment on a straight-line basis over their estimated useful economic lives at rates ranging from 2½% to 20% of original cost per annum.

##### Debenture discount and issue expenses —

The amortization of debenture discount and issue expenses is provided on a basis related to the principal amount outstanding.

#### (d) Income taxes —

On January 1, 1968 the Company adopted the tax allocation method of accounting for income taxes for all periods subsequent to that date.

Subsequent to January 1, 1968, the Company has provided for deferred income taxes arising primarily from claiming capital cost allowances available for income tax purposes in excess of depreciation charged to operations.

Prior to January 1, 1968, the Company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on its fixed assets. Because capital cost allowances exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 which have not been recorded as deferred income taxes.

The Company follows the practice of recognizing the investment tax credit currently as a reduction of income tax expense.

### 2. Inventories:

#### Inventories consist of —

	December 31	
	1978	1977
	(in thousands)	
Finished products and work-in-process .....	\$13,277	\$16,624
Raw materials and supplies .....	8,733	7,753
	<u>\$22,010</u>	<u>\$24,377</u>

### 3. Fixed assets:

#### Fixed assets consist of —

	December 31	
	1978	1977
	(in thousands)	
Land, at cost .....	\$ 574	\$ 544
Buildings, machinery and equipment, at cost .....	86,262	80,794
Less: Accumulated depreciation .....	34,809	32,232
Net book value of depreciable assets ..	<u>51,453</u>	<u>48,562</u>
	<u>\$52,027</u>	<u>\$49,106</u>

As part of a continuing review program the Company has revised the estimated useful economic lives of certain fixed assets and has removed from both cost and accumulated depreciation amounts in respect of assets which have become obsolete or were abandoned over a period of years. The net book value of these assets amounting to approximately \$100,000 has been included in the additional depreciation of \$310,000 referred to below.

As a result of these decisions the depreciation charged to operations for the year ended December 31, 1978 has been increased by approximately \$310,000 and net income has been decreased by \$176,000 (7¢ per share).

## 4. Sinking fund debentures:

December 31			
1978			1977
8¾% Series A	11⅝% Series B	Total	Total
<i>(in thousands)</i>			
Principal amount issued .....	\$12,000	\$11,000	\$23,000
Principal amount outstanding .....	\$ 9,826	\$10,230	\$21,124
Less: Payments due within one year .....	—	770	770
	<u>\$ 9,826</u>	<u>\$19,286</u>	<u>\$20,354</u>

## 8¾% sinking fund debentures, Series A —

The Series A debentures were issued on July 2, 1971 with a maturity date of July 2, 1991 and require that mandatory sinking fund payments be made in each of the years 1974 to 1990 to retire \$360,000 of the debentures per annum with an option to retire a further \$180,000 per annum.

## 11⅝% sinking fund debentures, Series B —

The Series B debentures were issued on December 9, 1975 with a maturity date of October 31, 1990 and require that mandatory sinking fund payments be made in each of the years 1978 to 1989 to retire \$770,000 of the debentures per annum.

The trust agreement contains a distribution test

formula which limits the availability of retained income for payment of dividends. As of December 31, 1978 approximately \$12,500,000 is available for distribution under the most restrictive tests.

Minimum sinking fund payments required in each of the five years following December 31, 1978 are as follows —

1979	\$ 770,000*
1980	\$1,116,000*
1981	\$1,130,000
1982	\$1,130,000
1983	\$1,130,000

\* Net of amounts acquired and lodged for future sinking fund requirements.

## 5. Share capital:

On December 4, 1978 Scott Paper Limited split its share capital 3 for 1. The authorized share capital of the Company after the split consists of 6,000,000 common shares without par value of which 2,426,250 are issued and outstanding. Of the 3,573,750 unissued shares, 123,750 are reserved for options under the "Key Employee's Stock Option Plan". As at December 31, 1978 options to purchase 111,750 shares are outstanding (but not yet exercised) at a price of \$8.00 per share, valid to October 23, 1981. Options to purchase 24,750 shares at \$8.00 were exercised in 1978.

## 6. Expenses include:

December 31		
	1978	1977
	<i>(in thousands)</i>	
Depreciation .....	<u>\$4,661</u>	<u>\$3,831</u>
Directors' and senior officers' remuneration	<u>\$ 472</u>	<u>\$ 427</u>

## 7. Pension plans:

The Company's hourly employees at the Western Manufacturing Division are members of an industry pension plan to which the Company contributes. In addition, the Company has a number of contributory pension plans, participation being available to substantially all of its other employees. Length of service and individual earnings determine the pensions and retirement benefits for all members of the Company plans. It is the Company's practice to provide for its portion of the cost of pensions and retirement benefits accrued, through charges to earnings determined by periodic actuarial computations. Actuarial reports prepared as of December 31, 1977 revealed that the Company plans were fully funded.

## 8. Dividends paid:

The Company paid four quarterly dividends during the year amounting in total to \$1,178,695. Dividends, on a split share basis, were paid at a rate of 10.83¢ per share for the first quarter, increased to a rate of 12¢ per share for the second and third quarters and to 14.17¢ per share for the last dividend paid in the year.

## Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1978 (in thousands)	1977
Financial resources were provided by:		
Operations —		
Income for the year .....	\$ 4,239	\$ 3,659
Items which did not involve an outlay of working capital —		
Depreciation .....	4,661	3,831
Deferred income taxes .....	1,985	1,817
Amortization of debenture issue costs .....	48	45
Loss on disposal of fixed assets .....	93	21
	<u>11,026</u>	<u>9,373</u>
Issue of common shares .....	198	12
Proceeds on disposal of fixed assets .....	98	25
	<u>11,322</u>	<u>9,410</u>
Financial resources were used for:		
Additions to fixed assets .....	7,773	9,813
Dividends .....	1,179	1,040
Reduction of long-term debt .....	1,068	1,110
Increase in miscellaneous assets .....	21	29
	<u>10,041</u>	<u>11,992</u>
Increase (decrease) in working capital during the year .....	1,281	(2,582)
Working capital at beginning of year .....	<u>12,121</u>	<u>14,703</u>
Working capital at end of year .....	<u>\$13,402</u>	<u>\$12,121</u>

## Auditors' Report

To the Shareholders of  
Scott Paper Limited:

1075 West Georgia Street  
Vancouver, B.C.  
February 16, 1979

We have examined the consolidated statement of financial position of Scott Paper Limited as at December 31, 1978 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.  
Chartered Accountants

## Ten Year Review

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
<i>(thousands of dollars except per share)</i>										
<b>Sales and Earnings</b>										
Net Sales .....	\$116,539	103,884	99,431	84,629	73,571	56,295	48,118	42,910	39,762	35,789
Depreciation .....	4,661	3,831	3,869	3,286	3,008	2,394	2,031	1,780	1,426	1,312
Interest expense .....	2,675	2,471	2,306	2,115	1,220	1,099	1,103	879	448	334
Income before taxes ...	6,555	5,674	6,143	5,404	5,523	3,538	3,244	3,049	3,183	3,268
Income taxes .....	2,316	2,015	2,578	2,445	2,586	1,544	1,557	1,463	1,600	1,700
Income after taxes ....	4,239	3,659	3,565	2,959	2,937	1,994	1,687	1,586	1,583	1,568
<b>Per Share*</b>										
Income before taxes ... \$	2.70	2.36	2.56	2.25	2.30	1.47	1.35	1.27	1.33	1.36
Income after taxes ....	1.75	1.52	1.49	1.23	1.22	.83	.70	.66	.66	.65
Cash flow .....	4.54	3.90	3.74	3.21	3.10	2.34	1.78	1.63	1.58	1.30
Dividends paid .....	.49	.43	.40	.40	.33	.33	.32	.30	.30	.30
Shareholders' Equity ..	14.63	13.42	12.33	11.25	10.41	9.52	9.03	8.64	8.28	7.92
Number of shares out- standing (thousands)	2,426	2,402	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
<b>Condensed Funds Statements</b>										
Source of funds										
— operations .....	\$ 11,026	9,373	8,983	7,705	7,447	5,619	4,266	3,918	3,799	3,070
— long term financ- ing and other .....	296	37	38	10,892	58	429	55	11,482	2,804	2,642
	11,322	9,410	9,021	18,597	7,505	6,048	4,321	15,400	6,603	5,712
Expenditures for										
— fixed assets .....	7,773	9,813	7,589	7,056	7,816	5,677	3,087	3,376	6,701	4,797
— dividends .....	1,179	1,040	960	960	800	800	760	720	720	720
— repayment of long term borrowings and other .....	1,089	1,139	195	13	763	608	—	6,100	—	—
	10,041	11,992	8,744	8,029	9,379	7,085	3,847	10,196	7,421	5,517
Net increase (decrease) in working capital ..	\$ 1,281	(2,582)	277	10,568	(1,874)	(1,037)	474	5,204	(818)	195
<b>Financial Position</b>										
Current assets .....	\$ 33,307	33,727	31,215	25,960	23,416	13,974	13,248	12,990	11,113	10,493
Current liabilities .....	19,905	21,606	16,512	11,534	19,558	8,242	6,479	6,695	10,022	8,584
Working capital .....	13,402	12,121	14,703	14,426	3,858	5,732	6,769	6,295	1,091	1,909
Fixed assets at net book value .....	52,027	49,106	43,170	39,480	35,740	31,031	28,206	27,206	25,610	20,334
Long term debt .....	19,286	20,354	21,464	21,633	10,636	11,400	12,000	12,000	6,100	3,300

\* Years 1969-1977 have been restated to reflect a 3 for 1 share split on December 4, 1978.

## Officers

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GEORGE L. O'LEARY

*Chairman, President & Chief Executive Officer*

THOMAS J. BIRKENHEAD

*Controller*

JAMES C. BOYLE

*Assistant Vice President (Industrial Marketing)*

W. MICHAEL FERRIE

*Assistant Vice President*

*(Director of Corporate Personnel)*

BERNARD A. GOULET

*Vice President (Manufacturing)*

JOHN J. HERB

*Secretary*

DOUGLAS HOLME

*Vice President (Corporate Development)*

PETER J. PETERS

*Vice President (Finance) and Treasurer*

JOHN E. PHILIP

*Assistant Vice President*

*(Ventures & Product Development)*

H. PETER SANAGAN

*Vice President (Marketing)*

DAVID H. R. STOWE

*Assistant Vice President*

*(Director of Consumer Sales)*

## Board of Directors

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H. CLARK BENTALL†

*Chairman & Chief Executive Officer*

*Dominion Construction Company Limited*

*Vancouver, B.C.*

GILBERT C. CLARKE

*Retired Businessman*

*London, Ontario*

ALEX W. FISHER, Q.C.‡

*Associate Counsel, Davis & Company*

*Vancouver, B.C.*

W. DOUGLAS H. GARDINER‡

*Vice Chairman*

*The Royal Bank of Canada, Toronto, Ontario*

CHESTER A. JOHNSON‡

*President*

*Whonnock Industries Limited*

*Vancouver, B.C.*

GEORGE L. O'LEARY†‡

*Chairman, President & Chief Executive Officer*

*Vancouver, B.C.*

PETER J. PETERS†

*Vice President*

*Vancouver, B.C.*

JAMES D. STOCKER†

*Vice President, Group Executive & Director*

*Scott Paper Company, Philadelphia, Pa.*

MARCELLIN TREMBLAY

*President*

*Canadian Provident Group, Montreal, Quebec*

† Member of the Executive Committee

‡ Member of the Audit Committee

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## Transfer Agent and Registrar

THE CANADA TRUST COMPANY

*Vancouver, Calgary, Toronto, Montreal and Halifax*

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## Stock Listings

Vancouver, Toronto and Montreal Stock Exchanges

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## Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 24, 1979 in the Arbutus Room at the Four Seasons Hotel, Vancouver, British Columbia.

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## Operating Subsidiary — 100% Owned

Westminster Paper Company Limited

SCOTT





## TO OUR SHAREHOLDERS AND EMPLOYEES

Sales and earnings results for the first six months of 1978 are encouraging and were the result of sound performances by the marketing, manufacturing and administrative divisions of the company. Net sales for the period rose by 5.8%, from \$55,750,000 to \$58,989,000. Net income amounted to \$2,083,000, or \$2.60 per share, compared to \$1,900,000, or \$2.38 per share, for a 9.6% increase over 1977. The increase in the number of shares outstanding from 800,000 to 800,750 is due to the company's stock option program.

The quarterly dividend was increased in April from \$.325 per share to \$.36 per share, in line with A.I.B. regulations in effect for 1978.

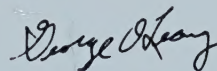
The increase in net income after taxes is the result of increased sales, improved efficiencies and a decline in the rate of income tax applicable for the period. For the first six months of this year, a rate of 37% has been used compared to 40% for the first half of 1977. The difference is due to the application of investment tax credits arising from our capital spending program and the 3% inventory tax credit instituted by the Federal Government after our first half 1977 report was published.

Early in June, we announced in a press release that an offer had been made for the assets of Lennox Paper Limited of Lennoxville, Quebec. These assets include a modern tissue machine, converting equipment and land and buildings. The offer is being reviewed by the Foreign Investment Review Agency of the Federal Government.

We are pleased to announce the appointment of Mr. Marcellin Tremblay as a director. Mr. Tremblay is President of the Canadian Provident Group of Companies and Chairman

of the Canadian Life Insurance Association of Canada. A native of Montreal, he is also a director of several other prominent corporations and institutions in the Province of Quebec.

For the Board of Directors



G. L. O'Leary  
Chairman

Vancouver, B.C.  
July 17, 1978

SCOTT PAPER LIMITED  
Box 3600, Vancouver, B.C. Canada V6B 3Y7

# SCOTT

*Free*  
**SCOTT PAPER LIMITED**

**REPORT TO THE SHAREHOLDERS  
For the First Six Months of 1978**



# SCOTT PAPER LIMITED

## CONSOLIDATED STATEMENT OF INCOME

(in thousands except on a per share basis)

	First Six Months 1978	First Six Months 1977
Sales, less discounts and allowances .....	\$58,989	\$55,750
Expenses (Note 1):		
Cost of products sold .....	41,330	39,188
Marketing, general, administrative and development expenses .....	12,968	12,088
Interest and amortization of debenture issue costs .....	1,385	1,305
	55,683	52,581
Income before taxes .....	3,306	3,169
Provision for taxes on income .....	1,223	1,269
Income after taxes for the period .....	\$ 2,083	\$ 1,900
Income per share after taxes .....	\$2.60	\$2.38
Dividends paid per share .....	.685	.65
Number of common shares outstanding .....	800,750	800,000

NOTE 1 — Expenses include depreciation of \$2,116 (1977 — \$2,157).

Unaudited and subject to year-end adjustment.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

(in thousands)

	First Six Months 1978	First Six Months 1977
<b>SOURCE:</b>		
Income for the period .....	\$ 2,083	\$ 1,900
Add — Charges which did not involve an outlay of working capital:		
Depreciation (Note 1) .....	2,116	2,157
Deferred income tax .....	520	750
Amortization of debenture issue costs .....	21	22
Net increase of miscellaneous items .....	6	19
Proceeds — issued share capital .....	6	—
	4,752	4,848
<b>APPLICATION:</b>		
Net additions to fixed assets .....	2,272	4,166
Dividends .....	549	520
Purchase of Series A debentures .....	291	—
	3,112	4,686
Increase in working capital during the period .....	1,640	162
Add — Working capital at beginning of the year .....	12,121	14,703
Working capital at end of the period .....	\$13,761	\$14,865